



TEACHING NOTE

Fluor Corp.'s Business Ethics Practices: Creating Six Sigma Standards in Staying Corruption Free

Synopsis of the Case Study

This case study offers scope for an intriguing discussion on the corruption practices of business corporations: the causes, consequences and the possible solutions in the backdrop of what Fluor Corp., had attempted to do. Highlighting the initiatives of Fluor Corp., a US construction major, to build an ethical organisation with zero tolerance for corruption, this case orchestrates what companies can do to make business corruption-free. What Fluor has done operating in an industry notorious for corruption, can be emulated by other companies that are ready to forego short-term benefits for long-term rewards.

Ideally suited for business ethics course, this case study can also be used as a part of strategy, highlighting ethical conduct of a company to be its competitive advantage.

Pedagogical Objectives

- To understand the underlying motivational factors for corruption in general and business corruption in particular
- To examine the relationship between a country's national culture and corruption practices
- To examine the relationship between the nature of industry and the scope and intensity of corruption
- To understand and study Fluor's best practices to be completely devoid of business corruption
- To explore, debate and suggest all the possible ways and means for any business firm within any industry and within any country to create corruption-free business environment.

This teaching note was written by Vivek M.V and Saradhi Kumar Gonela under the guidance of Dr. Nagendra V. Chowdary, IBSCDC. It is only an illustrative orchestration of the case study 'Fluor Corp.'s Business Ethics Practices: Creating Six Sigma Standards in Staying Corruption Free'. It is never meant to limit the learning outcomes.

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Assignment Questions

- I. What are the types of corruption and what are the motives behind corruption?
- II. Analyse the causes and consequences of corruption on society based on the country-specific and industry-specific factors that breed corruption?
- III. “Construction has been the most corrupted sector since TI started publishing BPI reports.” (**page 4, para 4 of the case study**). Why is it that construction industry happens to be the most corrupted industry?
- IV. What are the steps taken by Fluor Corp., to ensure ethical behaviour of all its employees?
- V. Why should business corporations stay away from corruption? What can corporate houses do in order to achieve a corruption-free business environment worldwide?

Teaching Plan

A suggested teaching plan is given in **Annexure (TN)-I**.

Case Analysis

The case orchestration in the classroom can typically follow the case flow. If this approach is adopted, three main issues can be dissected:

- National cultures, corruption and business corruption, primarily building relationships amongst the three
- Fluor Corp.'s corruption-free business practices: An Assessment, and
- Global initiatives to fight corruption in general and business corruption in particular.

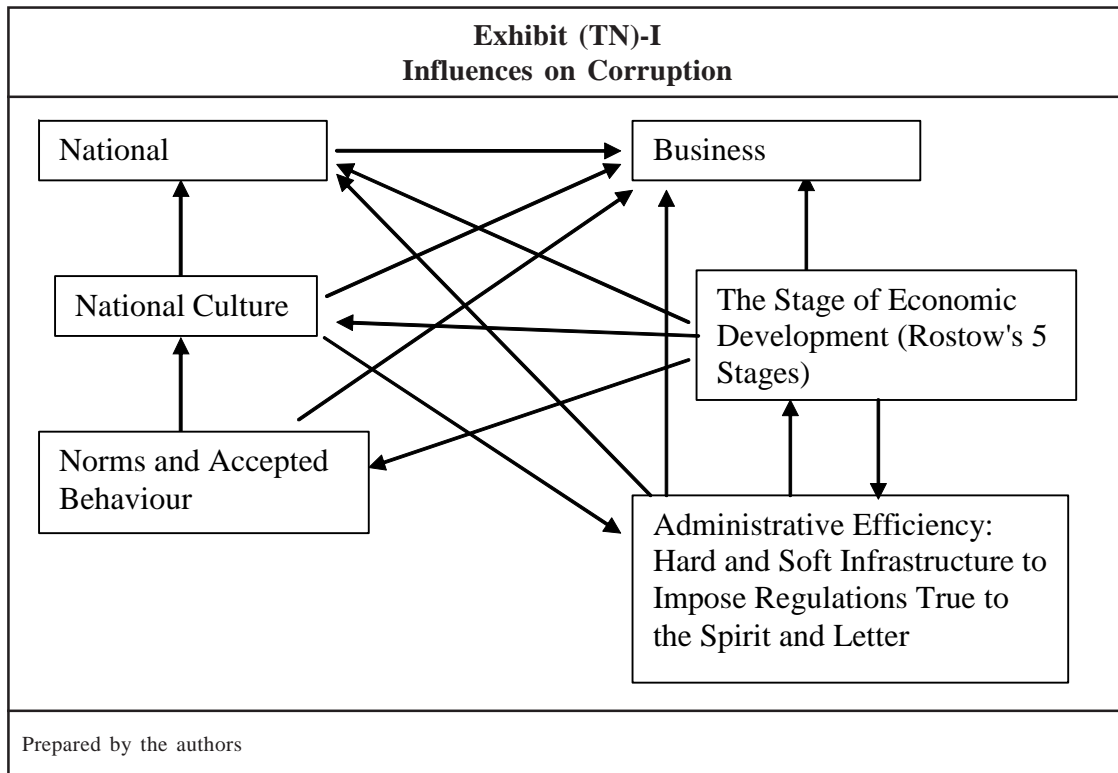
Motivations behind Corruption

The case study amply provides details on the different types and motivating factors for corruption. To discuss these factors following questions are suggested:

1. What is corruption? What are the different types of corruption? Why is corruption considered as a crime?
2. Do business and political corruption differ from each other? Are there any similarities between them?
3. “Corruption in the public sector and that in the corporate sector are intimately bound together” (**page 2, para 1 of the case study**). How is business corruption related to political corruption?
4. What are the motivational factors that induce corruption in public sector? Describe how each factor contributes to the growth of corruption.
5. What are the harming effects of corruption on a society? How does corruption affect a country's economy?
6. Which type of corruption do you think is more damaging? Why do companies involve in corruption?

National Cultures, Corruption and Business Corruption

The case study points out a few causes that induce companies to indulge in corrupt practices. Most of these causes stem from national culture. Using the case study, factors influencing corruption and business corruption (represented by arrows) can be depicted in the following way [Exhibit (TN)-I]:



Business corruption, therefore, is a factor of many influences, which in turn are influenced by various other factors. To curb business corruption, one needs to curtail the influencing factors – almost impossible, considering the vastness of each of these influences. To bring more clarity to the discussion, analysing **Annexure III of the case study** is suggested.

To further highlight the importance of cultural influence on corruption, analysing **Annexure I of the case study** using Geert Hofstede's (Hofstede) cultural frame will be highly helpful.

Hofstede's cultural framework has been applied in a wide variety of contexts, across behavioural science disciplines. In his seminal work, *Culture's Consequences: International differences in work-related values*, Geert Hofstede gives a cultural framework comprised of four dimensions: Individualism/ Collectivism, Uncertainty Avoidance, Masculinity/Femininity and Power Distance.

- 1) **Individualism** applies to societies in which the ties between individuals are not strong: every individual is expected to look after himself or herself and the immediate family.

Collectivism applies to societies in which people are integrated into strong groups, which protect people through unquestioning loyalty.

High Individualism: Identity is based on the individual – Task prevails over relationship

High Collectivism: Identity is based on one's social grouping – Relationships prevail over task

- 2) **Uncertainty Avoidance** refers to the extent to which people feel threatened by circumstances and create beliefs and institutions to avoid such conditions.
- High Uncertainty Avoidance: Many rules and low tolerance of deviant ideas; resistance to change
Low Uncertainty Avoidance: Few rules and high tolerance of deviant and innovative ideas
- 3) **Masculinity**: The dominant values in society are material success versus caring for others and the quality of life, termed as Femininity.
- High/Masculinity: Stress on equity, competition and performance – Managers are expected to be decisive and assertive
Low/Femininity: Stress on equality, solidarity and quality of work life – Managers use intuition and strive for consensus
- 4) **Power Distance indicates that the less powerful people expect and accept that power is distributed unequally.**
- Low Power Distance: People are resourceful democrats – Hierarchy in organisations seen as exploitive
High Power Distance: people believe in autocracy – Hierarchy in organisations reflects natural differences.

Suggested Questions:

1. How does the intensity of corruption vary in various regions/continents?
2. From **Annexure I of the case study**, is it appropriate to conclude that the culture of a country and the corruption levels of that country are related to each other?

At this stage a discussion on the correlation between economic development and levels of corruption would be helpful in understanding the difference in levels of corruption between various regions. To enable a discussion over this, Rostow's five stages of economic development can be used by plotting the countries listed in **Annexure I of the case study** on the five stages, as given below. This is not an exhaustive list, but all the countries can be plotted in the similar manner, using the GDP statistics or any other appropriate statistics as the basis for categorisation.

Exhibit (TN)- II Stage of Economy/ Country	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
	Pakistan Iran	China India	United Arab Emirates Singapore	Netherlands Australia	United Kingdom France
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The results might prove a perfect correlation between economic development and levels of corruption – the lesser the development, the more the corruption. At this stage, to put things in perspective, a debate can be raised if corruption is inevitable in the process of development. Picking a sentence from the case study “Australia, which was among most corrupted before 100 years, is among the least corrupted countries in 2008 CPI.” (page 3, para 1 of the case study) the discussion can be carried forward. However, some companies in the underdeveloped and developing economies are staying away from corrupt activities. The examples of Alacrity Housing Ltd. (India) and Grameena Bank of Bangladesh would be handy examples. Alacrity indeed is a rare construction company known in the last two decades for its exemplary ethical practices. It was never a darling of shareholders although its customers stood by its quality and service.

Suggested Questions:

1. Are corruption levels high in countries where majority of the economic activities are carried out by the government?
2. Would corruption levels be lower if companies are run in the name of the individuals?
3. What would be the level of corruption in family businesses?

Nature of Industry and Level of Corruption

After discussing the National cultures and Business corruption, the discussion can be directed towards Fluor Corp.'s fight against corruption.



In order to establish the influence of the industry on the level of corruption in the industry, the following questions can be asked.



Is there any relation between the nature of industry and the corruption levels in the industry?



In which industry does Fluor Corp., operate?



What is the nature of the construction industry?

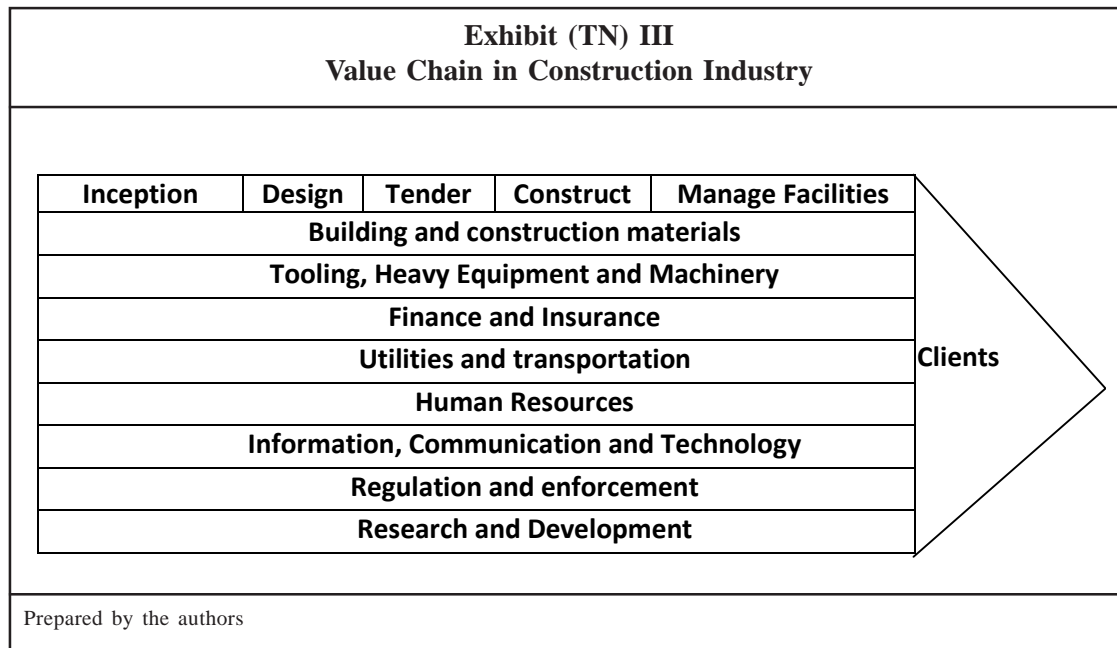


What is the nature of value chain in the construction industry?



Of all the components in the value chain, how many are within the company's hold and how many are controlled by outside agencies?

Exhibit (TN)-III can be used for this segment of the case analysis.



All the primary activities (Inception, Design, Tender, Construct and Managing Facilities) are under regulations and closely involve government and concerned parties, i.e., all the primary activities in the construction industry are outside the company's hold.

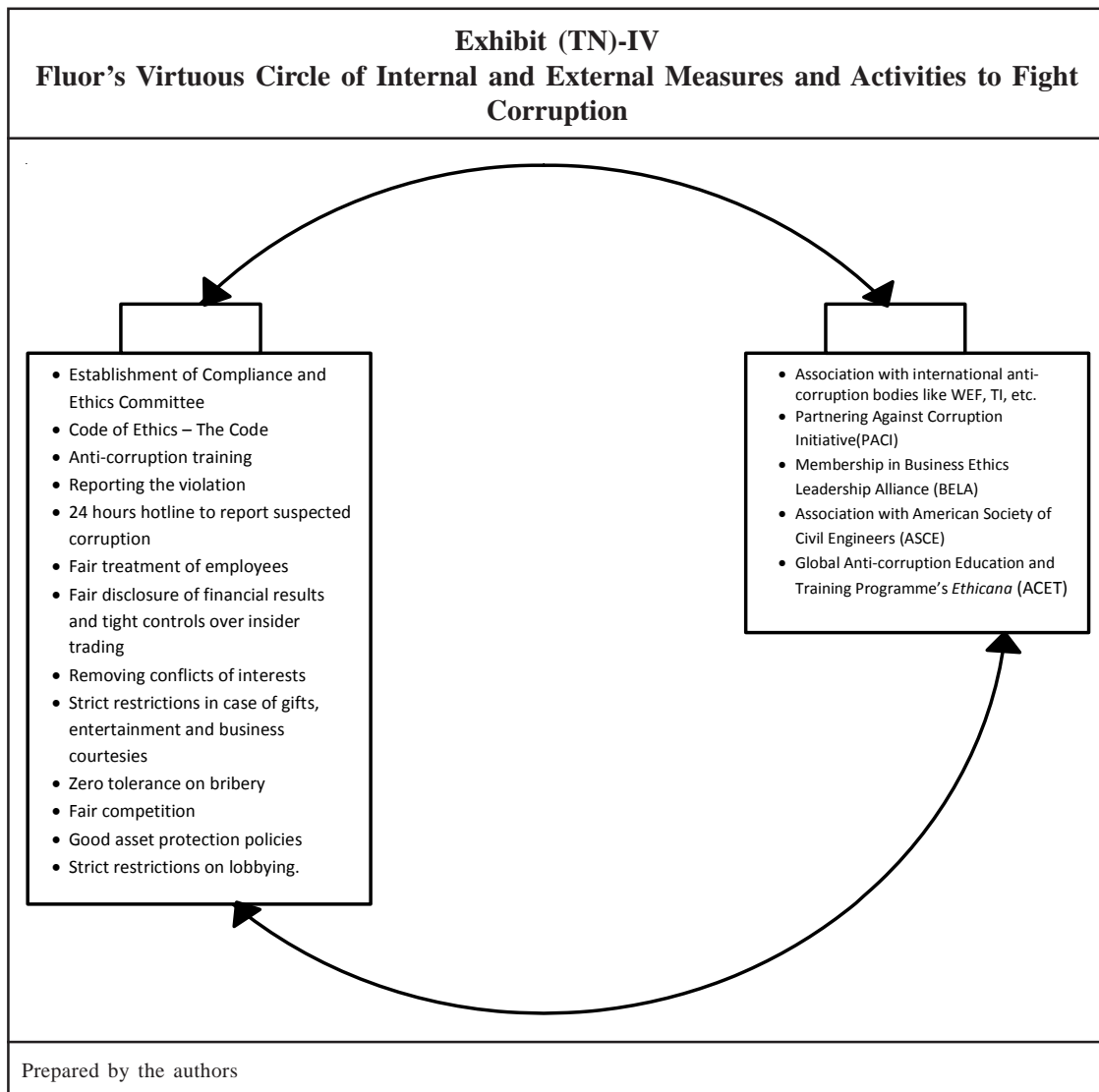
More the touch points with any government agencies, more the level of corruption.

Therefore, if you are running a construction company in a:

- (a) G-8 country
- (b) OECD country
- (c) Poor or underdeveloped country,

what would be your ethical practices and the probabilities in involving in corrupted practices?

Even being in the most corrupted industry (**Annexure IV of the case study**), look at what Fluor Corp., has done. By forming a virtuous cycle of internal and external controls (**Exhibit (TN)-II**), it fights corruption effectively.



Instead of ignoring corruption, Fluor made it a strategic issue (**Annexure V of the case study**) and then took it to the operational level (**Exhibit I and Annexure V of the case study**).

After explaining Fluor's fight against corruption, the case discussion can be directed to the 'Cost Benefit Analysis' of staying corruption free. There is a cost for staying out of corruption and that is, mainly, losing business (**page 5, para 2 of the case study**).

So why does someone stay away from corruption when that would lead to losing revenue?

At this point another question can be posed to the class.

"Would you like to build a company for a generation or for many generations?"

For companies that stay away from corruption, the current cost is always greater than the current benefits. But the future benefits would always be higher than the current costs. Here, another question can be asked.

Do you think, the current cost (lost revenues) would be high and the benefits would be more for ethically compliant companies in the future?

Boeckmann has built credibility by fighting corruption effectively by imposing standards in his own company and following it, even at the cost of business.

Suggested Questions:

1. What are Alan Boeckmann's contributions in Fluor's fight against corruption? Why is it necessary that fight against corruption start from the top? What is the role of leadership in building ethically high standard companies? Is it the responsibility of a CEO to provide the moral compass to the organisation?
2. Can fighting against corruption in a highly corrupt industry help in reducing corruption? When many of the competitors indulge in corruption and gain from it, why do some companies stay away from corruption?
3. From **Exhibit I of the case study** do you think ethical decision making framework of Fluor is an effective tool to inculcate ethical practices in the employees?
4. How does corruption affect the companies and the business environment globally? How does a corruption-free environment contribute to the profitability and sustainability of companies?
5. Can any company benefit by avoiding corruption in the field they operate while their competitors continue indulging in corruption and make profits? Will staying away from corruption be advantageous in business competitions? Justify your answer.

Fluor's global fight against corruption can be discussed here. Joining hands with global anti-corruption agencies like WEF and TI, what Fluor does is simple. It socially ostracises corruption, in the hope that once all the companies become sensitised about the harmful effects of corruption, they would also start fighting it and eventually corruption would be eradicated.

There are even companies like SRI International and California Public Employees Retirement System (CalPERS) which invest only in corruption-free nations.

At this point, the fight against corruption at the global level and roles of individual companies in fighting corruption in their respective businesses and areas of operations can be discussed. The example of Fluor can be taken. The awareness against corruption is fast gaining popularity. Partnering Against Corruption Initiative (PACI) has already more than 140 signatory companies. But joining in such an initiative and not working for it wouldn't alone serve the purpose (**Annexure VII of the case study**).

Making a collective effort to remove corruption from the business can be discussed at this point. Taking the example of BELA and ASCE and their activities including the global Anti Corruption Education and Training Programme (ACET), 'Ethicana' movie can be shown and discussed here.

Pitfalls while developing global anti-corruption programmes can be discussed here. The importance of globalisation and need for developing anti-corruption programmes that would work across the globe can be discussed.

Suggested Questions:

1. What do you think is the reason behind companies turning to the 'ethics' way? Is the new found 'corporate ethics' boom a pompous one? Or is it a genuine concern about the losses induced by corruption?
2. How can companies avoid the pitfalls (**Annexure VIII of the case study**) while forming new code of ethics and business conduct? Why is globalisation an important consideration while developing global ethics programmes?

However, the measures about corruption levels (in both countries and businesses) are not necessarily

accurate. The CPI, which measures the corruption levels in countries, started in 1995 and the Bribe Payers Index, which measures the corruption levels in industries, started only in 1999.

What about the least corrupted and most corrupted country's positions before 100 years? (page 3, para 3 of the case study)

What about ethical companies in the most corrupted countries? (Alacrity Housing Ltd. (India) and Grameen Bank)

The Big Picture

Fluor Corp.'s trust with business ethics, very categorically and powerfully indicates that:

- Even in the highly corrupt industry, a firm (as represented by its leader/CEO) can stand upright if it stands for its values
- b) 'Everything is fair in business' is just a misnomer at best and an excuse at worst. The leader/CEO has to lead from the front ensuring that the last person in the frontline employees honours and abides by defined "Code of Ethics".

Annexure (TN)-I Teaching Plan				
Sl. No	Analysis Section	Expected Learning objectives	Forward Linkage	Ideal Duration (minutes)
1	Motives behind Corruption	<ul style="list-style-type: none"> • Types of Corruption <ul style="list-style-type: none"> • Political corruption • Business corruption • Causes of corruption • Effects of corruption. • Levels of Corruption • Consequences of Corruption. 	National Cultures, Corruption Practices and Corruption Indices	15
2	National Cultures, Corruption Practices and Corruption Indices	<ul style="list-style-type: none"> • Relation between corruption and national culture • Corruption practices • Measures of corruption and TI • Corruption Perception Index (CPI) • Bribe Payers Index (BPI) • Levels of corruption in different industries • Relation between nature of industry and corruption. 	Fluor's practices to stop corruption	15
3	Fluor's Practices to Stop Corruption	<ul style="list-style-type: none"> • Alan L. Boeckmann's fight against corruption • Fluor's code of ethics – 'The Code' • Ethical decision making framework and ethics hotline • Association with anti-corruption initiatives and organisations. 	Ways to make a corruption free business environment	20
4	Ways to Make a Corruption-free Business Environment	<ul style="list-style-type: none"> • Need-based and greed-based nature of corruption • Benefits of staying away from corruption • Problems in fighting against corruption. 		20
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